

DEPARTMENT OF SOCIAL SERVICES

744 P Street, Sacramento, CA 95814



February 4, 2004

FOSTER CARE AUDITS AND RATES LETTER (FCARL) NO. 2004-02

TO: ALL GROUP HOME PROVIDERS
ALL COMMUNITY TREATMENT FACILITY PROVIDERS
ALL FOSTER FAMILY AGENCIES
ALL REGIONAL CENTER GROUP HOMES
ALL REGIONAL CENTER FOSTER FAMILY AGENCIES
ALL COUNTY WELFARE DIRECTORS
ALL COUNTY CHIEF PROBATION OFFICERS
ALL COUNTY MENTAL HEALTH DIRECTORS

SUBJECT: FINANCIAL AUDIT REQUIREMENTS

REFERENCES: FCARL NO. 2003-02, DATED MAY 15, 2003

This letter is to provide updates and highlights of information regarding financial audit requirements which affect the financial audit reports submitted by group home and foster family agency providers. **We highly recommend that non-profit corporations share a copy of this FCARL and FCARL No. 2003-02 with the independent auditor who will be performing the corporation's financial audit.**

In accordance with Welfare and Institutions Code Section 11466.21(a), a financial audit report (FAR) is required as a condition for a non-profit corporation to receive an Aid to Families with Dependent Children-Foster Care (AFDC-FC) rate. Additionally, Manual of Policies and Procedures (MPP) Section 11-405.214 requires the financial audit to also include cost data for each program as reported on the most recent (12/02) versions of the Group Home Program Cost Report (SR 3), Group Home Program Payroll and Fringe Benefit Report (SR 4) and/or Total Program Cost Display (FCR 12FFA for a foster family agency).

For all non-profit corporations whose fiscal year began prior to April 1, 2003, a FAR is due within six months after the end of the non-profit corporation's most recent year. For non-profit corporations whose fiscal year began on or after April 1, 2003, a FAR is required either within six months or within nine months after the end of the non-profit corporation's most recent fiscal year, depending on the total amount of federal funds received by the corporation. The total amount of federal funds received is also used to determine (1) whether a FAR must be submitted annually or once every three years and (2) whether federal Office of Management and Budget (OMB) Circular A-133 audit standards or Government Auditing Standards are required. **Failure to submit the FAR and cost data by the required due date may result in rate termination.**

Important information regarding financial auditing and reporting requirements was included in Foster Care Audits and Rates Letter (FCARL) No. 2003-02 dated May 15, 2003, which was sent to all group home and foster family agency providers. Providers with internet access can obtain a copy of FCARL No.2003-02 by using the following website link: www.dss.cahwnet.gov/getinfo/fcarl03/PDF/fcarl03_02.pdf.

Items addressed in the FCARL include the following:

- Details regarding auditing and reporting requirements and FAR due dates.
- Information on the federal funding threshold used in determining whether federal OMB Circular A-133 standards or Government Auditing Standards are required.
- How to calculate the amount of federal funds received by a non-profit corporation.
- Audited cost data requirements for all FARs and the forms to use for reporting.
- General information on FAR requirements for new providers.
- Good cause procedures for requesting additional time to submit a FAR when a non-profit corporation is unable to submit a report by the due date because of extenuating circumstances.
- Penalty for failure to submit a timely FAR.
- Eligibility criteria for partial reimbursement of financial audit costs.
- Information on licensing and experience requirements that must be met by a certified public accountant or state licensed public accountant.
- Information on the requirement for providers to maintain documentation to support AFDC-FC program expenditures for a minimum of five years and the importance of keeping well-organized records of all business transactions and preparing financial statements every year.
- Explanation that a FAR with a “disclaimer of opinion” issued by the independent auditor is not acceptable and would subject the non-profit corporation to rate termination.
- The transmittal form used to submit the FAR and cost data and the address within the California Department of Social Services (CDSS) where the documents are to be sent.

Highlights of Additional Financial Audit Requirements

- For those non-profit corporations that are required to submit a FAR once every three years on a schedule established by the CDSS, **the following items must be submitted for each year in which a FAR is not required:** (1) cost data submitted in accordance with MPP Section 11-405.213(b)(2) and (2) the Federal Revenue Certification, SR 9 form must be completed and submitted in accordance with MPP Section 11-405.213(b)(3). These regulation sections became effective July 1, 2003 and are now permanent. The new regulation sections can be accessed at

www.dss.cahwnet.gov/getinfo/pdf/fcmand.pdf and the Federal Revenue Certification, SR 9 form can be accessed at www.dss.cahwnet.gov/pdf/SR9.PDF.

- If the non-profit corporation changes its fiscal year, the audit conducted following the change must cover all of the months since the last audit in accordance with MPP Section 11-405.215(b), even though this may include more than 12 months.
- A non-profit corporation must use an accrual basis of accounting in reporting financial information. Financial information reported using a cash basis or modified cash basis of accounting is not acceptable since it would not be in a format consistent with generally accepted accounting principles as required by MPP Section 11-405.216.

Contact for Information on Financial Audit Requirements

If there are any questions regarding the financial audit requirements, please call the Financial Audits and Investigations Bureau at (916) 274-0445.

Sincerely,

GLENN FREITAS, CHIEF
Foster Care Audits and Rates Branch

- c: African American Foster Parent and Group Home Association
Association of Community Services Agency
Association of Minority Adolescents in Residential Care Homes
Association of Minority Adolescents in Residential Care Homes of Los Angeles County
California Alliance of Child and Family Services
Community Residential Care Association of California
County Welfare Directors Association
Foster Care Alliance
North Valley Children and Family Services, Inc.
Residential Care Providers Association of Los Angeles County